

AR56

solutions

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COVER:

Solutions *n. (plural)* solving
or means of solving a problem.

Solve *v. (-ing)* answer,
remove, or effectively deal
with a problem.

FINANCIAL HIGHLIGHTS

(all figures in thousands of dollars except per share figures)

	1998	1997
REVENUE	\$ 90,125	\$ 61,273
PRE-TAX EARNINGS (1)	13,788	5,984
NET EARNINGS	7,812	3,419
CASH FLOW FROM OPERATIONS (2)	10,056	4,439
SHAREHOLDER'S EQUITY	50,221	8,677
EARNINGS PER SHARE	1.03	0.50

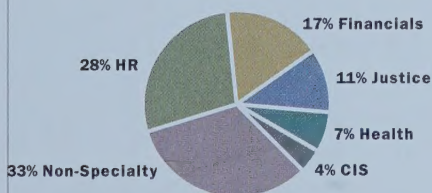
(1) Earnings before income taxes

(2) Net earnings from operations adjusted by non-cash items

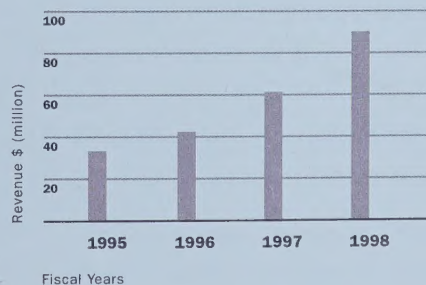
In Fiscal '98, Sierra reported record Revenue and Net earnings. Revenue grew by 47% and Net earnings by 128%.

GROWTH IN SPECIALTY PRACTICES

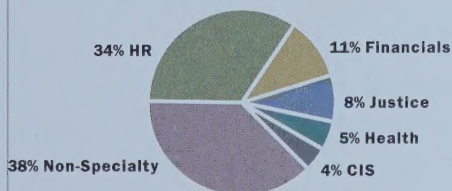
Specialty Practices
Percentage of Fiscal '98 Revenue



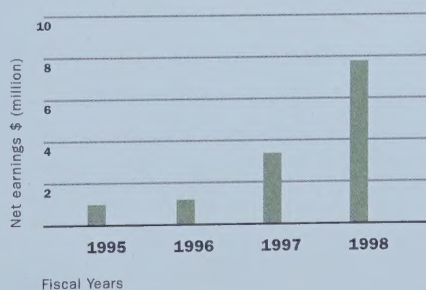
GROWTH IN REVENUE



Specialty Practices
Percentage of Fiscal '97 Revenue



GROWTH IN NET EARNINGS



In this Report, all dollar amounts are Canadian unless otherwise noted.



"The past twelve months have been the most extraordinary in Sierra's 32 years of operation."

President's Message

I want to welcome our new shareholders to the Sierra family of more than 700 employees. These are exciting and opportunity-filled times in the information technology industry. The forces of global competition, deregulation and technology innovation are daily expanding the scope of our opportunities. Those, like Sierra, able to ride this wave, will benefit in the years ahead.

The past twelve months have been the most extraordinary in Sierra's 32 years of operation. While there have been many critical, interesting and challenging times throughout our long history, the diversity of events in 1997/98 has no equal.

A few highlights illustrate what I mean. In numerical terms:

- **Revenue grew by more than 47%**
- **Staff expanded by over 24%**
- **Revenue per employee grew by 18%**
- **Net profit after tax jumped by more than 128%**

More significant than the immediate financial numbers, our Partners and Principals who are

the senior consulting/management team, increased by 50. A new branch office was opened in San Diego which will further our expansion in the state of California. Over the past summer, we created a 'Virtual Branch' to seek and deliver solutions to the Justice industry on a North American-wide scale. Staff from several geographic offices have joined this mobile practice. Our objective is to become **the** premier supplier of systems solutions to police, courts and correctional facilities.

Our Enterprise Solutions Practice, which delivers Human Resources and Payroll as well as Financial solutions, increased revenue by 46%. Significant developments occurred in our Health Informatics Practice and our Manta CIS solutions continued to gain new clients. In addition, we have taken major steps into the eCommerce arena. Sierra is not just talking about eCommerce, we are delivering practical solutions to our clients.

On April 21, 1998, Sierra completed an Initial Public Offer (IPO), raising in excess of \$63 million CDN, of



People are the critical assets of Sierra. Over the past year, we invested substantially in their growth and development.



which over \$28 million was new capital to the Company. The Sierra IPO has been hailed as one of the best underwritings in Canada in 1998. The prime purpose of the IPO was to facilitate Sierra's growth through acquisitions, new branches and specialty practice development. Our first step toward executing this strategy occurred on September 1, 1998 as we completed the acquisition of EDM Management Systems.

People are the critical assets of Sierra. Over the past year, we invested substantially in their growth and development. We spent \$2.5 million on external education of all kinds and held 78 internal classes covering 11 topic areas. A new education roadmap has been completed to guide staff in achieving their career goals.

Recognizing our growth, we invested considerable dollars and effort on improving Sierra's internal processes. A new HR/Payroll system utilizing PeopleSoft products was implemented, our financial systems have been upgraded, the Sierra Knowledge Network has expanded and been made more accessible for our consultants wherever they may be, and a new Employee Benefits plan has been introduced for US offices.

All the activity that took place over the past twelve months is the result of careful execution of our Vision 2002 strategic plan. Completed eighteen months ago, Vision 2002 defines Sierra's Guiding Principles, our Targets, our Strategies and our Tactics. Every employee shares this clear picture of where and how Sierra is heading.

Sierra is truly an empowered organization. By unleashing the creativity of over 700 individuals, progress to our stated goals becomes much easier to achieve. The strength of our people is truly the power of Sierra.

We look forward to the coming year with anticipation. The opportunity and potential to move Sierra forward are truly astonishing. We intend to seize this challenge.

Grant R. Gisell
Chairman, President and
Chief Executive Officer

December 22, 1998



Sierra's People

We have designed innovative programs to attract, motivate and provide the opportunity for optimal personal and professional growth.

RECRUITMENT

- Employee referrals and bonuses

CAREER GROWTH

- Fully defined career development program

COMPENSATION

- Incentive-based compensation at all levels
- Program to address specialized skills
- Subsidized stock purchase plan
- Equity for Partners and Principals

BENEFITS

- Flexible modular program

EDUCATION

- Extensive internal and external courses
- Specific education time commitments to staff



PEOPLE MANAGEMENT

Sierra is a service company in the information technology industry. The Company provides highly trained professional staff and software solutions to help clients solve business problems. People are Sierra's only important asset—the other assets are simply to help our people succeed.

Sierra has a decentralized management system for operations that is dependent on its Partners and Principals as managers in the branches for its success. This provides the room for personal growth and responsibility which attracts and holds Sierra employees and encourages the initiative that leads to new business opportunities. The branch-based profit

sharing plan brings home monthly the results of the initiatives to all staff in each branch. The result is consistently lower turnover than industry norms, especially among management.

Sierra's consulting staff represent about 90% of our headcount and includes management since they are also responsible for carrying out consulting assignments. All line management and consulting staff are information technology professionals. The Company invests heavily in ongoing professional training and, equally important, in the internal cultural courses that maintain consistency and teamwork. Examples include orientation, project management and leadership courses.

Sierra's Partners from 12 branches gather for an annual strategic planning session.



Our mission

is to enhance the competitive position of our clients through the implementation of information technology based business solutions.

SERVICES

Sierra is a systems integrator that provides information technology consulting services for administrative and operational systems to mid-size and larger clients. Services include consulting studies and systems definition, design and implementation. Services represent over 95% of Sierra's revenue.

Sierra obtains two-thirds of its revenue through its specialty practices which are described individually. The other third of Sierra's revenue comes from local market skills. Both specialty practice and local market approaches are based on the application of technology.

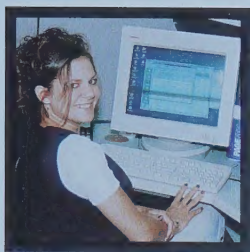
LOCAL MARKETS

Most branches develop specialized skills particularly relevant to their market area. Examples include Provincial government systems in Victoria and Edmonton, forest industry applications in Vancouver, and specialized Federal systems in Washington D.C. Besides the immediate returns of such local initiatives, all Sierra's current specialties have developed from local experience.

Sierra's Enterprise Solutions Practice is
successful because we focus on making
our customers successful.

“A basic
requirement
of business
today”





Enterprise Solutions give people the right business tools.

ENTERPRISE SOLUTIONS

Sierra's Enterprise Solutions Practice (ESP) is dedicated to delivering packaged Enterprise Resource Planning (ERP) solutions to our clients. This practice delivered over 45% of Sierra's revenue for 1997/98. The ESP combines Sierra's long-standing leadership in Human Resources and Payroll systems (HR) with our rapidly expanding Financial systems expertise.

From supply chain to payroll, Sierra has helped many of North America's leading companies to implement this basic requirement of business today. Organizations Sierra worked with this year include:

U B C

The University of British Columbia (UBC) enrolls over 32,000 students and employs over 10,000 faculty and staff. In less than two years, Sierra and UBC replaced the mainframe-based administrative systems with UNIX and Oracle-based systems,

including PeopleSoft Financials and HR, Viking Alumni/Development and a converted custom Student Information System.

A L G O M A

Algoma Steel Inc., the third largest integrated steel producer in Canada, employs over 5,000 people. Sierra and Algoma are currently implementing four PeopleSoft Financials and HRMS/Payroll products as part of Algoma's corporate initiative to be Y2K ready and position Algoma with systems for the future. Algoma marked a milestone for PeopleSoft, becoming their 1,000th live HRMS implementation.

P A G E N E T

PageNet is the world's largest wireless messaging company serving more than 10 million subscribers in the United States and Canada. As a strategic part of the realignment of PageNet's administrative operations,

including the consolidation of key support functions, PageNet has partnered with Sierra to implement the full suite of PeopleSoft's financial applications.

Now, many organizations are turning to Sierra to help realize maximum value from their ERP implementations. This includes redesigning the business processes to ease administrative workloads, utilizing extended features of the software such as workflow automation, and providing extended access to their applications through Internet and Intranet technologies. ERP implementations also form the basis for using the Internet to provide electronic commerce solutions for tomorrow's marketplace. The focus on long-term customer relationships, deep business knowledge and leading-edge technology practices will keep Sierra in the forefront of the Enterprise Solutions marketplace.

Tomorrow's wired world is based on today's
Enterprise Solutions. We at Sierra are helping
our customers build tomorrow.

Sierra combines domain knowledge
with technical expertise to create Justice
Information Systems that work to solve
real-world problems.



“Integrated Justice
Real-World
Success”

Sierra's Justice Practice has been an important component of the emphasis on vertical markets. Focused on police, courts and correctional facilities, Sierra's entry into this market began in Los Angeles in the late 1980s. To capitalize on new opportunities, Sierra has taken the strategic step to create a Justice Practice with its own marketing and delivery capability. This strategy has already shown success with recent wins at the City of San Diego Police Department and King County, Washington Superior Court.

The Justice Practice employs innovative technology to implement business solutions that work through partnerships with such firms as FileNET, Microsoft and Oracle. Sierra is in the forefront applying electronic document management, imaging and workflow to handle massive volumes of paper generated by large-scale law enforcement and court management applications, as well as more traditional data processing applications.

CONSOLIDATED CRIMINAL HISTORY REPORTING SYSTEM

Sierra was awarded the Consolidated Criminal History Reporting System (CCHRS) for Los Angeles County in 1994. This multimillion-dollar effort took three years to complete. CCHRS has been cited by SEARCH, the National (US) Consortium for Justice Information and Statistics, as an "Automation and Integration Real-World Success". CCHRS has garnered several awards including the 1998 Public Service Excellence Award for an Intergovernmental Program by the Public Employees Roundtable, a coalition of 37 management and professional associations representing more than one million public employees and retirees.

GOVERNMENT OF BRITISH COLUMBIA, MINISTRY OF ATTORNEY GENERAL

In April 1997, Sierra formalized a four-year Strategic Development Alliance with the Government of BC, Ministry of Attorney General for the design and development of an Integrated Justice System. The alliance to-date has delivered a province-wide Corrections Offender Management System and an integrated police, crown and courts case tracking and scheduling system. Sierra, in conjunction with



the Ministry, is formulating a plan for Phase II of the Strategic Alliance. The plan will take advantage of the system infrastructure built to-date to provide complete access to the justice community throughout the province, as well as public and other government agencies.

The experience gained in Los Angeles and British Columbia has given Sierra a unique position in the justice market, which is being recognized across the United States and Canada.

Sierra works hard to establish long-term strategic partnerships with our clients.



Sierra's vendor independence allows us to select and integrate the best components for each client situation.



Integrated information and systems provide the key to delivering quality services in today's rapidly changing health environment.

HEALTH INFORMATICS

Sierra provides health enterprises with specialized expertise in the development, implementation and management of health information systems. Our focus is on information integration from foundation clinical systems and logistical systems. This directly supports the emerging integrated health services enterprises in both Canada and the US. Our strategy is to position Sierra as a systems implementor and integrator through relationships with hardware and software vendors.

Sierra's success in the Health Sector has come from leveraging and diversifying our client base. In Alberta, the Alberta we//net program was established by Alberta

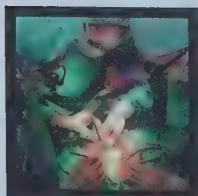
Health to improve the management of Alberta's health system by using integrated system-wide health information. Sierra's involvement has significantly increased during the last year and, as the initiative unfolds, Sierra will provide management consulting, project management, solution evaluations, and re-engineering and information management services in partnership with IBM.

In British Columbia, we are providing leadership to the information systems function and to numerous IM/IT projects at the Children's and Women's Health Centres. Also, we have increased the extent of our role in the Capital Health Region, Vancouver Hospital

and Health Sciences Centre, and Riverview Hospital.

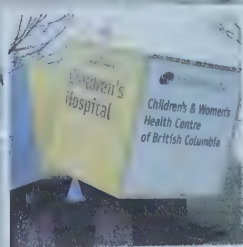
In terms of diversification, Sierra has won significant projects in California at the Los Angeles County Sheriff's Jail Hospital, and Department of Health; and in Ontario at the Hamilton Health Sciences Corporation.

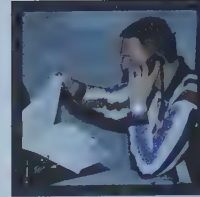
To deliver these new projects, Sierra has recruited senior health informatics staff and our branches have designated health informatics leaders. The acquisition of EDM Management Systems further enhances the depth and breadth of health expertise in the Company.



Sierra's success in the Health Sector builds on long-term relationships with an ever diversifying client base.

“Assisting health organizations to use information effectively”





CUSTOMER INFORMATION SYSTEMS

Under the impetus of deregulation, many utilities have decided to migrate their computer systems to new client/server technologies to realize the available power and flexibility. Sierra has developed a comprehensive Customer Information System (known as Manta) for municipal utilities that helps manage in this very different environment.

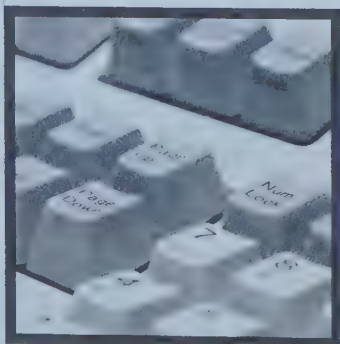
Sierra's Utility Management module (Manta CIS) was developed by a team of Sierra professionals who drew upon knowledge gained from hundreds of person years of experience within the utilities community. Manta CIS supports the distribution of any type of metered or unmetered services including electricity, natural gas, water and sewer. It can adapt to deregulation by allowing for flexible pricing, unbundled services, customer loyalty and marketing features.

Manta CIS is designed to enable our clients to streamline and optimize the handling of applications for service, meter reading, billing, service work, payments, collections, etc. It is built upon five integral and solid building blocks: Customer, Account, Service Address, Service and Equipment. Each building block is rich with potential to hold information, and the complex, ever-changing links between them are managed easily and effectively. The system contains a wide variety of built-in queries and reports that are easy for users to modify and expand.

Manta CIS uses client/server and relational database technology. The graphical user interface, point-and-click screens, configurable menus and user-defined security all contribute to ease of use and flexibility. Manta CIS is designed to support the processes essential to the business of utility management.

Sierra has clients implementing Manta CIS in cities such as Saskatoon, Kitchener, London and Kingston. Most of the sales are multimillion-dollar contracts. Sierra anticipates a high demand for the system in both Canada and the US.

Since many of the target customers are municipally owned, Sierra has developed a related Property Tax Module system to cover all aspects of property taxation as well as assessment management. Using the same advanced technology as the Manta CIS, many of our clients have implemented the system and have seen rewards such as highly improved customer service, enhanced billing capabilities and higher employee satisfaction.

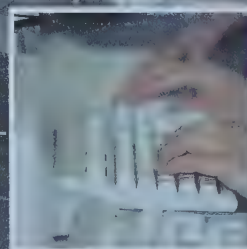


Sierra's *Manta* Customer
Information System will
transition utilities into
the deregulated world of
the 21st century.

“to enable
our clients
to *streamline*
and optimize”



“Creating world-class technology solutions”



Sierra builds “Most Innovative”
mission-critical system using
Web technology.

The Internet is the phone system of the 21st century – and can you imagine doing business without a phone?

TECHNOLOGY SOLUTIONS

Technology solutions can apply to any part of Sierra, both specialty practice and local market initiatives. Nothing changes faster than the technology of computing, and Sierra works hard to stay at the forefront of these changes. Today, two major factors are changing the landscape of computing technology and Sierra is using these advances to create world-class technology solutions for our clients.

DISTRIBUTED APPLICATIONS AND INTERNET COMPUTING

New distributed computing technologies introduced by Microsoft, Oracle, Netscape and other major software vendors are allowing Sierra to build economical large-scale systems for mainstream business applications.

BUDGET RENT A CAR OF BRITISH COLUMBIA LTD.

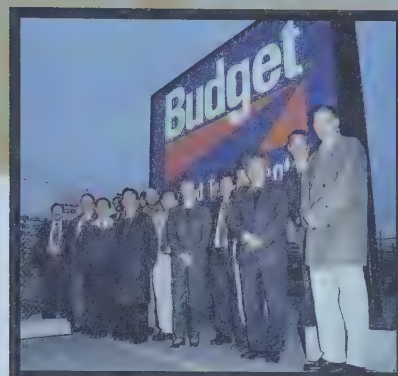
Using these technologies, Sierra is currently working with Budget Rent a Car of BC to develop a scalable, mission-critical, Web-based operations system that manages customer profile, reservation, rental contract, rate control and fleet information. Sierra has received a "Most Innovative" award from Microsoft for this project.

BRITISH COLUMBIA MINISTRY OF ENVIRONMENT, LANDS AND PARKS

Sierra is in the process of completing a major Web-based system for the BC Ministry of Environment, Lands and Parks, using new technologies from both Oracle Corporation and ESRI. The system will manage the Crown Land Registry for the Province providing access to spatial, attribute and image data to all levels of government, the private sector and the general public. More information on this leading-edge project is available from the Ministry's Web site at www.elp.gov.bc.ca/clrs/clrired.htm.

eCOMMERCE

The pervasiveness of the Internet is creating opportunities for a whole new class of system. These systems work not within a single enterprise, but rather between enterprises to make their business interaction more efficient. Sierra is at the forefront in this new field of eCommerce (electronic commerce).



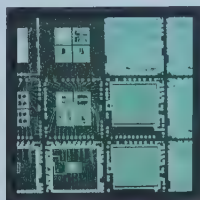
BELL EMERGIS

Sierra assisted in the development of the core eCommerce technology infrastructure, which provides a secure Web-based front end to the hosted eCommerce services provided by Bell Emergis. As customers have been rolled out onto the @Commerce services, Sierra has been contracted to provide implementation services, EDI mapping and application development.

NETSCAPE COMMUNICATIONS

Based on the experience with Bell Emergis, Sierra was selected by Netscape Communications to assist them in the development of extensions to their CommerceXpert product family. This comprehensive product suite provides business applications for end-to-end commerce over the Internet, including commerce exchange, procurement, selling and customer information services.

Sierra is one of a small number of Netscape Global System Integrators in North America. This designation recognizes Sierra's unique ability to integrate Netscape products and to provide leading-edge application services to Sierra and Netscape clients.



FINANCIAL CONTENTS

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Sierra

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Fiscal 1998 (the year ended September 30, 1998) was a landmark year in the history of Sierra. The Company leveraged its strategic position in a continually changing environment to produce record financial results. Revenue for the year was \$90.1 million, an increase of 47% over 1997. After tax profit was \$7.8 million compared to \$3.4 million in 1997, an increase of 128%. The Company and certain shareholders sold approximately 3,622,000 shares to the public in an initial public offering (IPO) and listed the common shares on the Toronto Stock Exchange raising \$28.8 million in new capital (net of issue costs). The Company also completed the acquisition of EDM Management Systems Inc. (EDM) in September 1998.

REVIEW OF OPERATIONS

The Information Technology (IT) systems integration industry has been rapidly expanding through the 1990s due to the increasing practice of outsourcing information technology activities by both public and private sector organizations. The well-known Year 2000 issue has simply increased the already healthy demand for services.

These factors are the main contributors to Sierra's 47% year-on-year revenue growth, nearly all of which is in the service area. Other factors include improved average billing rates due to specialization and Sierra's capacity to carry out increasingly larger projects.

Product sales increased by 39%, but remain at less than 3% of revenue. Product sales are not a fundamental part of Sierra's business strategy. They are a beneficial but incidental by-product of the main revenue stream. They generally arise when a client wants a single source of supply and timing and the effects on financial results are unpredictable.

Gross profit as a percentage of revenue increased to 24.7% in 1998 from 21.0% in 1997. The improvement was in the percentage of compensation costs to revenue which decreased from 68.5% in 1997 to 63.5% in 1998. This stems from improvements in utilization and rates as opposed to salary reductions or restraint.

The latter are impractical in the industry at this time. Sierra is disciplined in ensuring that salary increases are supported by rate increases. Higher rates are also a function of the Company's ability to earn higher revenue-to-salary ratios in its specialty practices. Improved utilization was achieved through fewer write-offs on fixed price projects as well as high market demand for services which allows better staff scheduling with fewer gaps in productive assignments.

In contrast, other costs increased as a percentage of revenue in 1998. No individual component increased by more than 1% of revenue compared to 1997 but two important elements of the increase were travel costs and education. Travel costs increase as the Company seeks to maintain high utilization by using specialist resources across North America. Sierra's education program is an important strategy in investing in the professional development of the individuals working for the Company and also in maintaining technological expertise. The Company measures this investment in two ways: direct out-of-pocket costs to the Company for training and education hours as a percentage of standard hours. The objective is that direct out-of-pocket expenses be in the region of 2 to 3% of revenue. In 1998, these expenses rose to 3.0% from 2.2% in 1997.

Sierra follows a long-term policy of expanding into new geographic areas to reduce dependency on any one business environment, particularly one as volatile as British Columbia's resource-based economy. In 1998, 36% of revenue was obtained from British Columbia-based clients against 43% in 1997. British Columbia's revenue is expected to continue declining relative to Sierra as a whole while still retaining a healthy growth rate. The remaining geographical distribution of revenue in 1998 (with 1997 comparatives) is: Alberta 17% (16%), Ontario 13% (11%), Atlantic Provinces 2% (nil), and the US 32% (30%).

Less than 2% of the Company's revenue in 1998 was generated by projects completing code changes to address the Year 2000 issue. Sierra has preferred to focus on new technology markets. Nevertheless, there

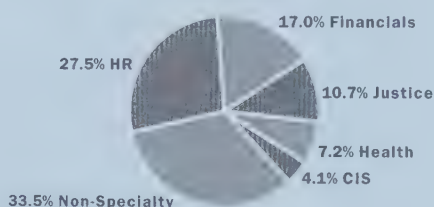
has been a significant but unquantifiable indirect positive effect to the extent clients have chosen to work with Sierra to implement new systems instead of correcting old ones for the Year 2000 "bug".

SPECIALTY PRACTICES

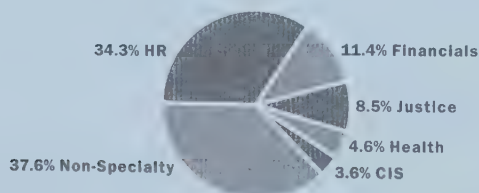
Sierra's margins are usually significantly better than the applicable industry averages. In 1997, 1998 and for the foreseeable future, this is a result of its specialty practices which are themselves the result of in-depth, functional knowledge of a client's area of business. Criteria for specialty practices include long-term market size, a capability to create competitive advantage, and a sound business plan with a focused market development strategy. Specialty practices are expected to have a lifetime of at least five years at superior margins and new ones must be regularly added to replace or augment maturing practices.

Specialty practices can be industry "horizontal" such as Human Resources and Payroll and Financials or industry "verticals", currently Health, Justice and Customer Information Systems.

1998 Specialty Practice Revenue
For the year ended September 30



1997 Specialty Practice Revenue
For the year ended September 30



HUMAN RESOURCES AND PAYROLL (HR)

HR systems include the automation of an organization's payroll, recruitment, and time and attendance. Sierra's HR Specialty Practice has reached maturity. Revenue was \$24.8 million in 1998 versus \$21.0 million in 1997. The healthy growth rate of 18% did not keep pace with the overall Company growth rate. This specialty practice will not grow at the rate of the Company as a whole and may even contract over the coming years.

FINANCIALS

Financial systems include general ledger, accounts payable, accounts receivable, inventory and purchasing systems. Revenue in 1998 increased by 119% to \$15.3 million from \$7.0 million in 1997. Growth is expected to be equal or greater than that of the Company.

JUSTICE

Sierra's Justice Practice can be divided into police, courts and correctional facilities. It is in a rapid growth phase. Revenue in 1998 grew by 85% to \$9.6 million from \$5.2 million in 1997. Localized in 1998 in Los Angeles and Victoria, the Justice Practice has new projects in San Diego and King County (Seattle) and is expected to grow at a rate exceeding that of the Company.

HEALTH INFORMATICS

The Health Informatics Practice (Health) is at an early stage. Revenue grew 132% in 1998 to \$6.5 million from \$2.8 million in 1997. The acquisition of EDM is an important factor in the Company's growth strategy for this practice. Only one month's results are included in the results of 1998 from the EDM acquisition and so there is as yet no material effect. It is anticipated that the combination of an injection of senior executives, client relationships and ongoing projects will produce a growth rate greater than that of the Company.

CUSTOMER INFORMATION SYSTEMS

Customer Information Systems (CIS) is a vertical specialty practice centered around public utilities and municipalities. The utility management module and the related property tax module have been designed for this client base. The Company is currently finishing the development of the proprietary Manta CIS system. Development on the property tax module was completed in 1998. CIS is in an early stage of growth. Revenue grew in 1998 by 68% to \$3.7 million from \$2.2 million in 1997.

CORPORATE ITEMS

General and administrative costs were 10.5% of total revenue in 1998 against 11.0% in 1997. On an absolute basis, there was an increase from the prior year of 40% to \$9.4 million from \$6.7 million. The costs increased due to higher depreciation and the expenditures required to support Sierra's growth, in particular additional salary and benefit expenses for administrative personnel and higher lease payments for more office space. The Company seeks to maintain the percentage of these costs to revenue at 11% or less.

General and administrative costs include amortization of capital assets and goodwill of \$1.8 million. The EBITDA (earnings before interest, taxes, depreciation and amortization) in 1998 was \$15.0 million, an increase of 105% on \$7.3 million in 1997. The goodwill generated on the acquisition of EDM will be amortized over 15 years. This will result in an annual charge of \$417,000 per annum. The results for EDM were incorporated for one month in the 1998 results of the Company and one month's amortization charge was made.

The funds received from the IPO have been invested in short-term securities and generated net interest income in 1998 of \$0.5 million against the net interest expense in 1997 of \$0.2 million.

In 1998, the Company recorded a gain arising from foreign currency fluctuations between the US and Canadian dollar of \$0.4 million. The Company does not use derivative instruments to reduce its exposure to currency risk. The Company does not have any long-term US dollar debt and hence is not exposed

to foreign exchange risk from debt servicing. Compensation and other costs in US dollars significantly offset sales in US dollars in the normal course of business and consequently reduce the Company's exposure to currency risk.

FINANCIAL CONDITION,
CAPITAL RESOURCES AND LIQUIDITY

The Company's primary capital needs are for working capital and capital expenditures to support the growth of its existing operations and to fund acquisitions. Net cash provided by operating activities before net changes in non-cash working capital items increased in 1998 by 127% to \$10.1 million from \$4.4 million in 1997. The net use of funds for non-cash working capital items increased significantly from \$2.2 million in 1997 to \$12.4 million in 1998. The largest component of that use was the increase in accounts receivable and unbilled work in progress of \$10.6 million.

Accounts receivable and unbilled work in progress at September 30, 1998 was \$24.9 million, an increase from September 30, 1997 of 74%. Accounts receivable increased by 65% to \$22.6 million due to revenue increases and more project work with government agencies, which often lengthens the payment cycle. Unbilled work in progress increased from \$0.6 million at September 30, 1997 to \$2.1 million at September 30, 1998. The increase arose primarily from the timing of deliverables on two major fixed price contracts.

Excluding project financing (as discussed below), financing activities provided cash of \$33.7 million in 1998 as compared to \$0.2 million in 1997. The Company underwent a share reorganization prior to listing its common shares on the Toronto Stock Exchange including a repurchase of shares. The IPO generated \$28.8 million of new capital (net of issue costs). Shares were issued pursuant to the Stock Option Plan and the Employee Share Ownership Plan. Shares with a fair market value of \$2.9 million were issued as part of the purchase price of EDM. The weighted average number of shares outstanding for 1997 was deemed to be the number of common shares outstanding immediately prior to the IPO.

On this basis, the weighted average number of shares outstanding increased by 11% in 1998. Immediately prior to the IPO, 466,896 options were issued in settlement of options outstanding under plans initiated prior to the IPO.

The Company's investing activities, excluding the effect of the change in long-term receivables linked to project financing, increased to \$9.7 million in 1998 from \$2.3 million in 1997. The Company invested \$6.4 million in the acquisition of EDM.

The Company's long-term debt is project financing and is tied to the associated long-term receivables. Any differences in the balance of the receivables versus the long-term debt is due to the timing of repayments. The Company carries the credit risk of this debt and so will only enter into such arrangements with institutions with a high bank credit rating. The institutions at this time are a municipality, a major university and a provincial government.

As at September 30, 1998, Sierra's principal sources of liquidity were cash and short-term investments (net of bank indebtedness) of \$22.7 million. The Company believes that these resources together with cash provided by future operations and available borrowings under its line of credit will be sufficient to meet its working capital needs and anticipated capital expenditures for the foreseeable future. The resources will also provide the funds required for any acquisitions in the foreseeable future.

The Company did not pay dividends in the year and does not anticipate paying cash dividends in the foreseeable future, intending to retain earnings to finance the growth and development of its business. The Company's dividend policy will be reviewed from time to time in the context of the Company's earnings, financial condition and other relevant factors.

RISKS AND RISK MANAGEMENT

Fixed price contracts are an important element of Sierra's business. The impetus arises from the client's desire for accountability in projects and the development of long-term relationships is a fundamental part of Sierra's business development philosophy. In entering into such contracts, the Company assumes certain risks in relation to its ability to deliver projects on time and profitably. To minimize risk, all proposals over \$250,000 are reviewed by corporate management. Recently introduced reporting structures provide earlier warning of problems. Nevertheless, Sierra management believes that some fixed price contract risk is inherent in the marketplace for projects in excess of \$1 million and that overruns will consequently occur from time to time that will adversely affect profitability. This can lead to considerable fluctuations in quarterly results that often, but not always, even out over the course of a year.

Sierra's growth and continued success depends in large part on its ability to attract, retain, train and motivate highly skilled personnel. There is significant competition for employees with the skills required to perform the services the Company offers and this condition is expected to continue in the foreseeable future. Sierra has developed comprehensive programs to address these issues.

The IT services industry is highly competitive and is characterized by rapid technological change, shifting client preferences and new product developments. The Company's strategy is to develop emerging specialty practices at the time of maturity of others. Three of the specialty practices currently identified are in the growth stages and eCommerce is emerging as a potential future specialty practice. In addition, the Company places emphasis on technological expertise in its career planning and has an extensive education program.

The “Year 2000 Issue” covers the problems arising from computer systems that store years as two digits, such as 98, instead of four digits, such as 1998. The impact of this technique has been minor to date but will become very serious where dates on or after January 1, 2000 are involved. The two digit “00” will appear to the computer to be lower (earlier) than 99. The need for clients to correct or replace systems with two digit year representation has indirectly helped Sierra’s growth and is dealt with elsewhere in this report. However, the Year 2000 Issue also affects Sierra’s internal operations.

Sierra has replaced all its internal accounting, billing, management and payroll systems over the past two years with systems correctly using four digit years. All these new systems are now in production within the Company. Final testing will occur prior to June 30, 1999 to ensure no subtle or historic problems remain. All non-compliant computing hardware is being upgraded or replaced. Support systems such as telecommunications networks and office equipment are also being made compliant or replaced.

Capital costs for equipment replacement are not expected to be significantly higher than normal costs for equipment upgrades and cyclical replacement so no specific capital budget provisions have been made.

The Company has reviewed dependencies on outside suppliers and clients to determine if it is materially at risk from failures on their part to properly deal with the Year 2000 Issue. No significant dependencies have been identified and, in case of failure, manual alternatives are available.

OUTLOOK

The outlook for fiscal 1999 and 2000 remains promising for the industry and the Company. The long-term trend to outsourcing is expected to continue and may be increasing. The positive impact of the Year 2000 Issue will almost certainly continue though 1999 and is expected to carry on through 2000 as clients initiate system activities delayed by urgent Year 2000 projects. The high ongoing rate of technological change, particularly regarding Internet and electronic commerce applications, provides opportunities for our clients to significantly improve current business systems and create new ones. Sierra expects to benefit from these activities in 1999 and increasingly thereafter.

Sierra foresees continued strong internal growth but not at the rate of 1997 and 1998 (45% and 47% respectively). These rates of growth are not believed to be sustainable in a people dependent business due to the time required to absorb and train new staff consistent with Sierra’s way of operating.

Sierra also expects to grow by acquisition and will use most of the proceeds from our IPO for strategic acquisitions. Our targets will generally have 25 to 75 staff, be in the systems integration and consulting industry and have good management that will continue. Sierra will use a mixture of cash and shares for this purpose. The preferences are for US-based companies, especially those improving our developing specialty practices.

DECEMBER 18, 1998

The consolidated financial statements of Sierra Systems Group Inc. have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Company's independent auditors, PricewaterhouseCoopers, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included opposite.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.



Grant R. Gisell
Chairman, President and
Chief Executive Officer



Ian U. Reid
Executive Vice-President and
Chief Financial Officer

DECEMBER 18, 1998

TO THE SHAREHOLDERS OF
SIERRA SYSTEMS GROUP INC.

We have audited the consolidated balance sheets of Sierra Systems Group Inc. as at September 30, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

*PricewaterhouseCoopers LLP*CHARTERED ACCOUNTANTS
VANCOUVER, CANADA

CONSOLIDATED BALANCE SHEETS

As at September 30, 1998 and 1997 (in thousands of Canadian dollars)	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	\$ 24 060	\$ —
Restricted cash (Note 3)	784	280
Accounts receivable, including unbilled work in progress (Note 6)	24 906	14 278
Current portion of long-term accounts receivable (Note 4)	4 256	3 941
Prepaid expenses	610	194
	<u>54 616</u>	<u>18 693</u>
LONG-TERM ACCOUNTS RECEIVABLE (Note 4)	5 785	2 950
CAPITAL ASSETS (Note 5)	5 225	3 491
DEFERRED INCOME TAXES	1 046	—
GOODWILL (Note 2)	6 228	—
	<u>\$ 72 900</u>	<u>\$ 25 134</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	\$ 1 397	\$ 1 715
Accounts payable and accrued liabilities	6 808	6 758
Income taxes payable	2 097	1 762
Prepaid fees	1 117	1 017
Deferred income taxes	617	124
Current portion of project financing (Note 7)	4 858	3 941
	<u>16 894</u>	<u>15 317</u>
PROJECT FINANCING (Note 7)	5 785	1 140
	<u>22 679</u>	<u>16 457</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 9)	35 508	1 537
CONTRIBUTED SURPLUS (Note 9(a))	—	54
RETAINED EARNINGS	14 713	8 945
COMMON SHARES OWNED BY A SUBSIDIARY (Note 9(a))	—	(1 859)
	<u>50 221</u>	<u>8 677</u>
	<u>\$ 72 900</u>	<u>\$ 25 134</u>

Approved by the Board



Grant R. Gisell
Director



Ian U. Reid
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended September 30, 1998 and 1997 (in thousands of Canadian dollars)	1998	1997
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 8 945	\$ 5 526
NET EARNINGS FOR THE YEAR	7 812	3 419
CONSIDERATION PAID IN EXCESS OF PAID-UP CAPITAL OF SHARES REPURCHASED (Note 9 (a))	(2 044)	—
RETAINED EARNINGS - END OF YEAR	\$ <u>14 713</u>	\$ <u>8 945</u>

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended September 30, 1998 and 1997 (in thousands of Canadian dollars except for per share and share figures)	1998	1997
REVENUE		
Services	\$ 88 180	\$ 59 876
Product sales	<u>1 945</u>	<u>1 397</u>
	90 125	61 273
COST OF SALES		
Compensation	57 264	41 973
Other costs	8 913	5 176
Product costs	<u>1 680</u>	<u>1 263</u>
	67 857	48 412
GROSS PROFIT	22 268	12 861
GENERAL AND ADMINISTRATION	<u>9 435</u>	<u>6 722</u>
OPERATING INCOME	<u>12 833</u>	<u>6 139</u>
OTHER EXPENSES (INCOME)		
Foreign exchange gain	(416)	(28)
Loss on disposal of capital assets	—	8
Interest (income)	<u>(539)</u>	<u>175</u>
	(955)	155
EARNINGS BEFORE INCOME TAXES	<u>13 788</u>	<u>5 984</u>
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 8)		
Current	5 483	2 661
Deferred	<u>493</u>	<u>(96)</u>
	5 976	2 565
NET EARNINGS FOR THE YEAR	\$ <u>7 812</u>	\$ <u>3 419</u>
EARNINGS PER SHARE	\$ <u>1.03</u>	\$ <u>0.50</u>
FULLY DILUTED EARNINGS PER SHARE	\$ <u>1.00</u>	\$ <u>nil</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES (Note 1)	7 620 088	6 859 220

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended September 30, 1998 and 1997 (in thousands of Canadian dollars)	1998	1997
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net earnings for the year	\$ 7 812	\$ 3 419
Items not affecting cash -		
Amortization	1 751	1 108
Deferred income taxes	493	(96)
Loss on disposal of capital assets	<u>—</u>	<u>8</u>
	10 056	4 439
Net change in non-cash working capital items relating to operations	(12 424)	(2 209)
	<u>(2 368)</u>	<u>2 230</u>
FINANCING ACTIVITIES		
Project financing, net	5 562	5 081
Shares issued	34 282	1 012
Shares repurchased	<u>(550)</u>	<u>(848)</u>
	39 294	5 245
INVESTING ACTIVITIES		
Long-term accounts receivable	(2 835)	(2 950)
Purchase of capital assets	(3 310)	(2 261)
Investment in EDM Management Systems Inc.	<u>(6 403)</u>	<u>—</u>
	(12 548)	(5 211)
INCREASE IN CASH AND CASH EQUIVALENTS	24 378	2 264
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>(1 715)</u>	<u>(3 979)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>22 663</u>	\$ <u>(1 715)</u>
REPRESENTED BY		
Cash and short-term investments	\$ 24 060	\$ —
Bank indebtedness	<u>(1 397)</u>	<u>(1 715)</u>
	\$ <u>22 663</u>	\$ <u>(1 715)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 1998 and 1997

(amounts in tables are in thousands of Canadian dollars except share figures)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries are Sierra Systems Consultants Inc., Sierra/Computec Consulting Inc., and EDM Management Systems Inc. (EDM).

REVENUE RECOGNITION

The Company recognizes its revenue as services are performed. Revenue is recognized on fixed price contracts using the percentage-of-completion method of accounting. Adjustments to fixed price contracts and estimated losses, if any, are recorded in the period when such adjustments or losses are known. On risk-sharing contracts, billings for subcontractors and equipment supply, for which there is no mark-up, are recorded as recoverable expenses within cost of services rather than as revenue.

TRANSLATION OF ACCOUNTS OF FOREIGN SUBSIDIARIES

Accounts stated in foreign currencies are translated into Canadian dollars as follows:

- monetary assets and liabilities at the year-end rate of exchange
- non-monetary assets, liabilities and capital stock at historical rates of exchange
- revenue and expenses at average rates for the year, except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts.

All gains and losses arising from the translation of foreign currencies are included in net earnings for the year.

CAPITAL ASSETS

Capital assets are carried at cost. Amortization is calculated over their estimated useful lives using the declining balance method at the following annual rates:

Furniture and equipment	20% - 30%
Computer hardware	30%
Computer software	100%
Leasehold improvements	over the remaining life of lease

One-half of the year's amortization is recognized in the year of acquisition.

GOODWILL

Goodwill is amortized over its estimated useful life of 15 years using the straight-line method. Goodwill is written down when declines in value are considered to be permanent, based on estimated future cash flows.

PREPAID FEES

Fees received in advance are deferred and matched against billings as services are performed.

EARNINGS PER SHARE

Basic earnings per share are calculated based upon the weighted average number of common shares outstanding during the period, after giving effect to the reorganization (Note 9(a)). Prior year earnings per share have been calculated based upon the number of common shares outstanding immediately prior to the initial public offering.

Fully diluted earnings calculations assume that options under the stock option plan have been exercised at the earlier of the beginning of the period or date of issuance and that funds derived therefrom would be invested at an annual after tax rate of 3.2%.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, management does not believe these differences would have a material effect on operating results.

2 ACQUISITION

On September 1, 1998, the Company acquired all of the outstanding shares of EDM, a company specializing in information technology consulting services. The cost of the acquisition was \$6,403,000.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at September 1, 1998, as follows:

Net assets at fair values:		
Capital assets	\$	141
Goodwill		<u>6 262</u>
Cost of acquisition	\$	<u>6 403</u>
Consideration given:		
Cash	\$	3 484
Common shares		<u>2 919</u>
	\$	<u>6 403</u>

The operating results of the acquired business have been included, on a consolidated basis, in the financial statements of the Company from September 1, 1998.

Amortization of goodwill:		
Goodwill on purchase	\$	6 262
Less: amortization		<u>(34)</u>
	\$	<u>6 228</u>

3 RESTRICTED CASH

At September 30, 1998, \$784,000 (1997 - \$280,000) was being held as a project performance deposit required by a customer. The deposit will be released to the Company upon completion of the project.

4 LONG-TERM ACCOUNTS RECEIVABLE

The long-term accounts receivable relate to certain long-term projects for which the Company has arranged project financing (Note 7). All payments received on the contracts are applied to pay interest and reduce the loans, and the long-term accounts receivable have been pledged as security for the loans. Included in accounts receivable is interest at the same rates and in the same amounts as the project financing. At September 30, 1998, the current portion of the long-term accounts receivable amounted to \$4,256,000 (1997 - \$3,941,000).

5 CAPITAL ASSETS

	1998		
	COST	ACCUMULATED AMORTIZATION	NET
Furniture and equipment	\$ 3 534	\$ 2 581	\$ 953
Computer hardware	5 603	2 203	3 400
Computer software	1 835	1 263	572
Leasehold improvements	455	155	300
	<u>\$ 11 427</u>	<u>\$ 6 202</u>	<u>\$ 5 225</u>

	1997		
	COST	ACCUMULATED AMORTIZATION	NET
Furniture and equipment	\$ 3 038	\$ 2 393	\$ 645
Computer hardware	3 514	1 326	2 188
Computer software	1 156	677	479
Leasehold improvements	268	89	179
	<u>\$ 7 976</u>	<u>\$ 4 485</u>	<u>\$ 3 491</u>

6 BANK INDEBTEDNESS

The Company has operating bank lines of credit of \$5,000,000 and US \$250,000. Accounts receivable have been pledged as security for the bank indebtedness.

7 PROJECT FINANCING

The Company has arranged project financing from a Canadian bank for approximately \$16,382,500 (1997 - \$11,382,500) on three long-term contracts. The financing is advanced monthly based upon the value of services performed. The related long-term accounts receivable (Note 4) are pledged as security for the project financing.

The project financing comprises:

	1998	1997
Bank loans up to a maximum of \$6,832,500, with interest at bank prime rate plus 1/2% repayable on demand	\$ 1 938	\$ 621
Bank loan up to a maximum of \$9,550,000, with interest at bank prime rate plus 1/2%, capped at a maximum of 5.5%, repayable in monthly installments of \$243,333 until 2003	8 705	4 460
	10 643	5 081
Less: current portion	<u>4 858</u>	<u>3 941</u>
	<u>\$ 5 785</u>	<u>\$ 1 140</u>

8 INCOME TAXES

	1998	1997
Earnings before income taxes	\$ <u>13 788</u>	\$ <u>5 984</u>
Expected provision	\$ 6 228	\$ 2 700
Increase (decrease) resulting from:		
Small business deduction	—	(44)
Non-deductible expenses	104	25
Unrecognized deferred income tax recovery	—	34
Foreign tax differential	(192)	(150)
Other	(164)	—
Reported income tax provision	\$ <u>5 976</u>	\$ <u>2 565</u>

9 CAPITAL STOCK

AUTHORIZED

1998

100,000,000 common shares without par value
50,000,000 preferred shares without par value

1997

4,000,000 Class A common shares without par value and convertible to Class B common shares on a one-for-one basis
4,000,000 Class B common shares without par value
4,000,000 Class C common shares with a par value of \$0.01 per share

ISSUED

	NUMBER OF COMMON SHARES					AMOUNT
	Class A	Class B	Class C	Common	Total	
Balance at September 30, 1996	2 403 510	896 229	—	—	3 299 739	\$ 976
Issued for cash	329 150	—	109 172	—	438 322	1 011
Purchased but not cancelled	(99 168)	—	—	—	(99 168)	(450)
Balance at September 30, 1997	2 633 492	896 229	109 172	—	3 638 893	1 537
Issued for cash	359 829	—	80 790	—	440 619	507
Redeemed	—	—	(189 962)	—	(189 962)	(2)
Exercise of stock options	1 188 198	—	—	—	1 188 198	1 328
Cancellation of shares purchased	(504 935)	—	—	—	(504 935)	(309)
Share reclassification	(3 676 584)	(896 229)	—	4 572 813	—	—
Stock split (3 for 2)	—	—	—	2 286 407	2 286 407	—
Initial public offering, net of issue costs	—	—	—	1 691 453	1 691 453	28 787
Exercise of stock options	—	—	—	13 151	13 151	237
Issued pursuant to the ESOP	—	—	—	118 500	118 500	504
Issued for acquisition (Note 2)	—	—	—	125 838	125 838	2 919
Balance at September 30, 1998	<u>nil</u>	<u>nil</u>	<u>nil</u>	<u>8 808 162</u>	<u>8 808 162</u>	<u>\$ 35 508</u>

9 CAPITAL STOCK (CONTINUED)

- (a) On April 21, 1998, the Company completed an initial public offering. Prior to the closing of the offering:
- (i) the Company redeemed all of the outstanding Class C shares
 - (ii) the Company issued 1,188,198 Class A common shares at a price of \$0.01 pursuant to outstanding options, and cancelled options to purchase 180,291 Class A common shares
 - (iii) 504,935 Class A shares (1997 - 414,646) owned by subsidiaries of the Company were cancelled. The amount paid for the shares of \$2,406,733 has been charged as follows:
 - \$308,602 to capital stock
 - \$54,091 to contributed surplus, and
 - \$2,044,040 to retained earnings.
 - (iv) all Class A and Class B shares were reclassified as common shares
 - (v) the common shares were subdivided so that every two common shares became three common shares.
- Pursuant to the initial public offering, the Company issued 1,691,453 common shares at \$18 per share for total proceeds net of issue costs of \$28,787,000.
- (b) During the year, the Company issued 118,500 common shares under the Employee Share Ownership Plan (ESOP).
- (c) During the year, the Company granted stock options to directors and employees of the Company to acquire up to 741,396 common shares at prices ranging from \$18 to \$34 with expiry dates ranging from April 13 to September 25, 2003 (of which 466,896 were in settlement of outstanding options under plans initiated prior to the initial public offering). Only one fifth of the common shares covered by an option can be taken up in any one year after the date that the option was granted. At September 30, 1998, there were 720,176 stock options outstanding. During the year, 8,105 stock options were cancelled.
- (d) As at September 30, 1998, there were 3,420,781 common shares held in escrow; 3,336,061 can be released in equal installments on April 21, 1999, 2000 and 2001, respectively. 84,720 common shares issued in respect of the acquisition of EDM (Note 2) can be released in the proportions one third, one half, and one sixth on September 1, 1999, 2000 and 2001, respectively.

10 COMMITMENTS

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

1999	\$	1 185
2000		848
2001		517
2002		455
2003		360
2004 and thereafter		<u>275</u>
	\$	<u>3 640</u>

11 BUSINESS SEGMENT INFORMATION

The Company operates in one business segment — providing IT services. The Company primarily operates in Canada and the United States.

		1998	
		\$	
	CANADA	US	TOTAL
Revenue	61 435	28 690	90 125
Earnings from operations	7 444	5 389	12 833
Identifiable assets	63 168	9 732	72 900
		1997	
		\$	
	CANADA	US	TOTAL
Revenue	42 998	18 275	61 273
Earnings from operations	3 246	2 893	6 139
Identifiable assets	18 157	6 977	25 134

12 FINANCIAL INSTRUMENTS

(a) FINANCIAL RISKS

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in US dollars significantly offset sales in US dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

(b) CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. With the exception of long-term contracts (Note 4) totalling \$10.0 million at September 30, 1998 (1997- \$6.9 million), the Company's credit concentrations are limited due to the wide variety of customers and markets into which the Company's services are sold.

(c) FAIR VALUES

The fair values of the Company's cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair values of the long-term accounts receivable and project financing are estimated to approximate their carrying values because they each bear interest at floating rates.

13 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

SIERRA SYSTEMS GROUP INC.

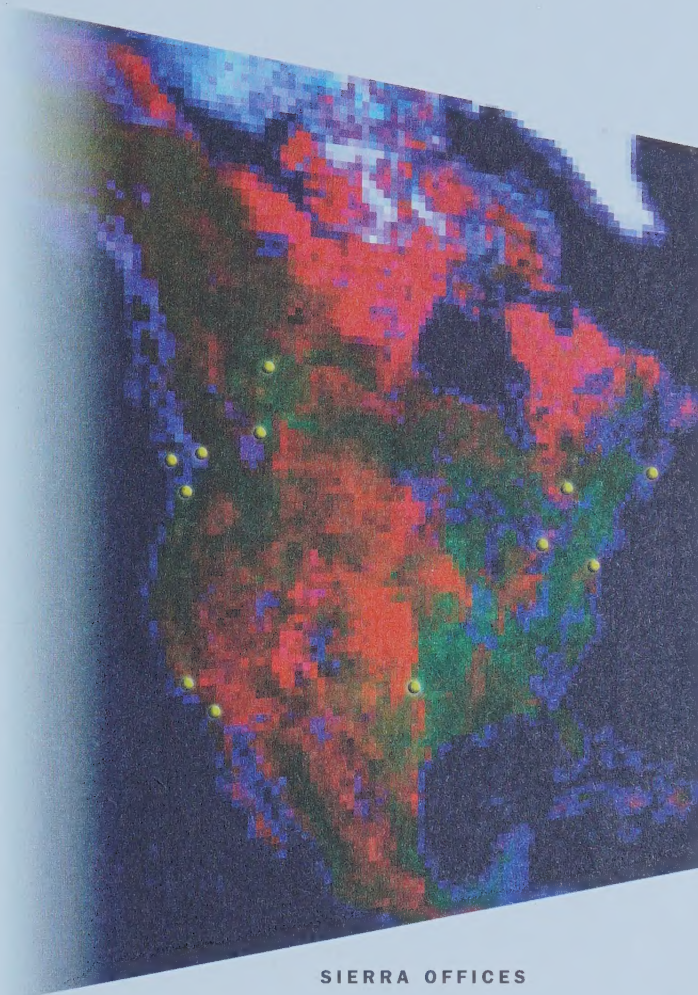
SUITE 1400
1177 WEST HASTINGS STREET
VANCOUVER, BC
CANADA V6E 2K3

TELEPHONE: (604) 688-1371
FAX: (604) 688-6482

NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Princess Louisa Suite, Level 2, Waterfront Centre Hotel, 900 Canada Place Way, Vancouver, BC on Monday, February 22, 1999 at 11:00 am

All shareholders are cordially invited to attend.



SIERRA OFFICES

STOCK EXCHANGE

TORONTO STOCK EXCHANGE
TRADING SYMBOL - SSG

TRANSFER AGENT

CIBC MELLON TRUST
VANCOUVER, BC

BANKER

ROYAL BANK OF CANADA
VANCOUVER, BC

LEGAL COUNSEL

LANG MICHENER LAWRENCE
& SHAW
BARRISTERS AND SOLICITORS
VANCOUVER, BC

AUDITORS

PRICEWATERHOUSECOOPERS
CHARTERED ACCOUNTANTS
VANCOUVER, BC

INVESTOR RELATIONS

SUSAN L. JEFFERY
(604) 891-6213

BOARD OF DIRECTORS

GRANT R. GISEL
President, Chief Executive Officer
and Chairman of the Board

IAN U. REID
Executive Vice-President,
Chief Financial Officer,
Secretary and Director

LESLIE ANN INGRAM
Vice-President and Director

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Vice-President and Director

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